Exhibit 1

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	:	Chapter 11 Case No.
LEHMAN BROTHERS HOLDINGS INC., *et al.*,	:	08-13555 (JMP)
	:	(Jointly Administered)
Debtors.	:	

REPORT OF ANTON R. VALUKAS, EXAMINER

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March 11, 2010

Counsel to the Examiner

VOLUME 1 OF 9

Sections I & II: Introduction, Executive Summary & Procedural Background

Section III.A.1: Risk

Although Lehman's Alt-A mortgages were never as risky as subprime mortgages, its Alt-A mortgages became increasingly risky towards the end of 2006 and the beginning of 2007.[263] This portion of the Report describes those events.

Lehman considered its residential mortgage securitization business to be a distribution business.[264] Lehman had a vertically integrated residential mortgage business in which BNC originated subprime loans and Aurora originated Alt-A loans, and Lehman itself securitized pools of those mortgages into residential mortgage-backed securities ("RMBS").[265] BNC and Aurora were part of Lehman's Mortgage Capital Division, which originated residential mortgages, while FID was responsible for securitizing the mortgages.[266] By selling the RMBS to investors, Lehman shifted the risks of the underlying mortgages to the investors.[267] Lehman, however, bore the risk that it would not be able to securitize the mortgages or sell the RMBS.[268] The mortgages

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Cynthia Angell & Clare D. Rowley, Federal Deposit Insurance Corp., FDIC Outlook (Second Quarter 2006) (last updated Mar. 21, 2007) (http://www.fdic.gov/bank/analytical/regional/ro20062q/na/2006_summer04.html)

[263] E-mail from Dimitrios Kritikos, Lehman, to Jeffrey Goodman, Lehman (Jan. 31, 2007) [LBEX-DOCID 380035]; Dimitrios Kritikos, Lehman, Selected trends from Aurora Risk Review (Feb. 2, 2007), at p. 2 [LBEX-DOCID 537846]; Examiner's Interview of Dimitrios Kritikos, July 29 & 30, 2009, at pp. 12, 14-15.

[264] Madelyn Antoncic, Lehman, 2007 Bondholder Meeting Presentation (Oct. 18, 2007), at p. 6 [LBEX-DOCID 244792]; Lehman, Presentation to Standard and Poor's, Lehman Brothers Securitized Products Business (Oct. 7, 2005), at p. 2 [LBEX-DOCID 095356]; Lehman, Strategic and Financial Review (Jan. 18, 2008), at p. 9 [LBEX-DOCID 1412341]; Examiner's Interview of Richard McKinney, Aug. 27, 2009, at p. 5.

[265] Vikas Shilpiekandula, Lehman, An Overview of the Residential Mortgage Market (Oct. 25, 2007), at p. 2 [LBEX-DOCID 894664].

[266] Examiner's Interview of David N. Sherr, May 6, 2009, at p. 4.

[267] Lehman, Securitized Products, MBS: Non Investment Grade Retained Interests (Jan. 16, 2007), at p. 1 [LBEX-DOCID 839039].

[268] *Id.;* Lehman, Presentation to Standard and Poor's, Lehman Brothers Securitized Products Business (Oct. 7, 2005), at pp. 9, 10 [LBEX-DOCID 095356].

that Lehman could not shift to third-party investors through securitization were known as "retained interests."[269]

By late 2006, Lehman's non-investment grade retained interests began to increase sharply; investors were growing increasingly cautious about purchasing RMBS bonds backed by subprime mortgages, "and as a result the [Lehman residential mortgage trading] desk [was] struggling to sell residuals and [non-investment grade] bonds."[270] Lehman's diminished ability to shift the mortgage-based risk to investors meant that the formerly profitable moving business could become a money-losing storage business.[271]

At the same time, Lehman's mortgage business experienced other troubling trends, including sharp increases in repurchase requests, rises in delinquency rates and a spike in first-payment defaults.[272] By the fourth quarter of 2006, Lehman's internal research reports were suggesting that investors in RMBS bonds, and particularly those backed by subprime mortgages, would become increasingly risk-averse, and subprime-backed RMBS bonds would be at heightened risk of a rating agency downgrade.[273]

[269] Lehman, Securitized Products, MBS: Non Investment Grade Retained Interests (Jan. 16, 2007), at p. 25 [LBEX-DOCID 839039]; *see also* LBHI_SEC07940_581174 10-Q (filed Apr. 9, 2008), at pp. 20, 55.

[270] Lehman, Securitized Products, MBS: Non Investment Grade Retained Interests (Jan. 16, 2007), at p. 13 [LBEX-DOCID 839039].

[271] *Id.* at p. 1.

[272] Examiner's Interview of Susan Harrison, Apr. 28, 2009, at pp. 2, 5; Dimitrios Kritikos, Lehman, BNC Risk Review December 2006 (Jan. 20, 2007), at p. 50 [LBEX-DOCID 251077]; Dimitrios Kritikos, Lehman, Risk Review: Aurora and BNC February 2007 (Mar. 19, 2007), at p. 10 [LBEX-DOCID 188325].

[273] Srinivas Modukuri, Lehman, Securitized Products Outlook for 2007: Bracing for a Credit Downturn (Dec. 2006), at pp. 8, 19 [LBEX-DOCID 245013].

Thereafter, Lehman's cash capital and equity adequacy position temporarily improved. The improvement was the result of several factors. For one thing, the SEC changed the method of calculating the total capital ratio, and, as a result, Lehman picked up several percentage points and saved "roughly $4 billion in capital charges on average every month."[525] In addition, Lehman was able to sell some of its leveraged loan positions, thereby raising cash capital and reducing its illiquid holdings.[526]

(f) Lehman's Termination of Its Residential Mortgage Originations

During this same period, mid-August 2007, Lehman decided to close BNC and cease subprime originations entirely.[527] The anticipated turn in the residential mortgage market still had not arrived, and management could not justify Lehman's continued exposure to liability on the origination of subprime mortgages.[528] In January 2008, Lehman's Aurora subsidiary suspended its origination through wholesale and

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[525] E-mail from Anna Yu, Lehman, to Martin Kelly, Lehman, *et al.* (Feb. 6, 2008) [LBEX-DOCID 2799485].
[526] Lehman, ALCO Summary Package (Jan. 31, 2008), at p. 2 [LBEX-DOCID 527115].
[527] Lehman Brothers Holdings Inc., Press Release: Lehman Brothers Announces Closure of BNC Mortgage (Aug. 22, 2007) [LBEX-DOCID 880148]; Lehman, Subprime(r) (Sept. 6, 2007), at p. 14 [LBEX-DOCID 894656]; e-mail from Edward Grieb, Lehman, to Christopher M. O'Meara, Lehman (Aug. 22, 2007) [LBEX-DOCID 197143]; e-mail from Tasha Pelio, Lehman, to Jasjit (Jesse) Bhattal, Lehman, *et al.* (Aug. 22, 2007) [LBEX-DOCID 176893].
[528] Examiner's Interview of Lana Franks Harber, Sept. 23, 2009, at pp. 2, 10, 11; Examiner's Interview of David N. Sherr, Sept. 25, 2009, at pp. 2, 6, 8.

2007 Bondholder Meeting

Risk Management
Madelyn Antoncic
Chief Risk Officer

October 18, 2007

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Comprehensive Risk Framework

Risks in the Securitized Products businesses are managed within the overall Lehman Risk Management framework

- We monitor and actively manage the risk of the origination business.
  - Dedicated risk manager onsite.
  - Monthly risk review process for both current inventory and previously securitized loans
  - Extensive risk reporting to ensure they conform to our standards for performance.
  - The Firm has a process for monitoring exposure to Representations and Warranties (R&W) fraud along with Early Payment Defaults (EPD).
  - Our probability based EPD model is used in in the decision to underwrite loans and help determine what additional compensating factors are required to approve the loan.
- Counterparty credit risk framework starts with client selection..... all warehouse lines are collateralized and margined on a regular basis
- Risk appetite is measured daily, calculated at a 95% confidence level. The market risk component employs a simulated P&L approach using 4 years of historical data, weighting current data more heavily, taking into account both linear and non-linear components of risk. We incorporate event risk into risk appetite calculation measuring losses associated with increases in defaults and property value declines.
- We conduct regular stress testing to see the impact on our P&L of dramatic spread widening.... consistently predicted greater stressed losses than actually occurred.

Confidential:

Risk Review

Aurora and BNC

February 2007

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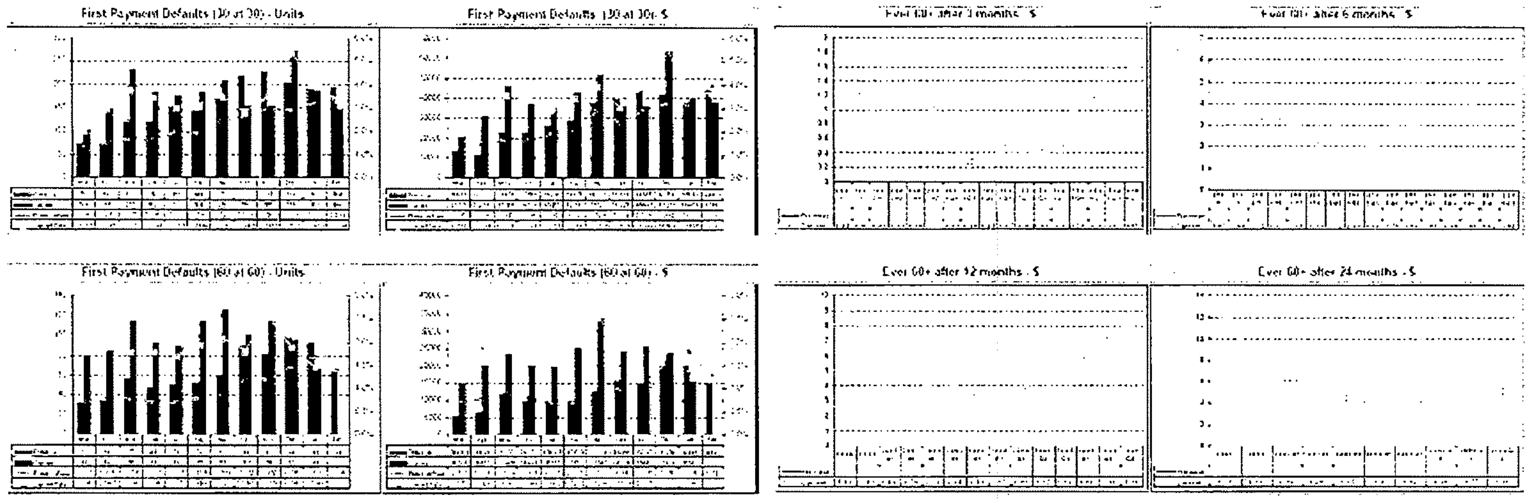
Performance - BNC



- **BNC** First Payment Defaults declined in February to levels similar to those of a year ago. The 30s at 30 were **3.6%** dollar-wise and **3.3%** unit-wise. The 60s at 60 were **1.5%** dollar-wise and **1.5%** unit-wise. Since February is a short collections month, the results are looking very encouraging.

- The deterioration in **BNC** performance starting with late 2004 originations continues. The **60+ rate after 6 months** has been constantly increasing from 1.96% in mid-2004 to 6% for late 2006 originations. There was a slight improvement in the performance of 2006Q3 originations.

- **Subprime** delinquency keeps climbing on all fronts. The **30+** rate for Lehman loans serviced by Chase runs at 11.7% currently. **60+** is 7.8%, **90+** runs at 6.6%. The **Foreclosure** rate has doubled since last year running at almost 6%, while **Bankruptcies** are running less than 1.5%. The **REO** inventory is over 1.7%. **Prepayments** have been slowly going down, with CPR12 running 8 points lower than last year. **Rollrates** at **Chase** are back in line, after the spike in December. They are still running at higher levels than last year, with a higher deterioration rate at the 30 and 60 buckets.

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Other

- **Appraisal reductions and rejections** have steadily and dramatically increased since September 2006. The reduction/rejection rate in September was 8.18% which was consistent with prior monthly findings. As of January 2007 the reduction/rejection rate had increased 128% to 18.66%. Loans of $950,000 or higher and loans where the sales price or value is $1,495,000 or higher continue to have the highest reduction/rejection rates at 29.80% and 34.15% respectively. Every high risk appraisal criteria bucket has increased dramatically over the same September to January time frame.

- The need for **field reviews** of appraisals has also risen significantly over the same period. In September 3% (63) of the desk review volume resulted in field reviews. In January of 2007 13.57% (442) of the desk reviews resulted in required field reviews.

- A project is currently in progress to redefine the **appraisal review criteria**.

- The **Aurora National Client Relations** received 689 broker applications and 42 correspondent applications. There were 523 broker clients and 14 correspondent client approvals. 78 brokers were denied. 231 brokers and 31 correspondents were terminated without cause predominantly due to no business for the brokers and failure to recertify for the correspondents. 24 brokers and 9 correspondents were terminated with cause due to misrepresentation or declining net worth.

- **Special Investigations** completed the review of 240 LXS loans which resulted in 50% of the loans contained material misrepresentation.

- **Fraud Awareness Training** has been scheduled for Aurora Loan Administration and Operations employees beginning March and continuing through July.

- The Aurora Credit Policy is reviewing all of the **Flow Seller's** negotiated variances to determine if the variance is being utilized, and if it should be continued.

From: Kritikos, Dimitrios <dimitrios.kritikos@lehman.com>
Sent: Tuesday, January 30, 2007 8:51 PM (GMT)
To: Goodman, Jeffrey <jeffrey.goodman@lehman.com>
Subject: Aurora originations trends and performance

Heads up,

I can see performance for Aurora originated loans to become even worse in 2007. Looking at the trends on originations and linking them to first payment defaults, the story is ugly:

The last 4 months Aurora has originated the riskiest loans ever, with every month been riskier than the one before - the industry meanwhile has pulled back during that time. The proposed guideline changes that are on the table today are not sufficient to rein in the bad performance. I am bringing in all these issues to the Aurora Executive committee on Thursday morning and the Risk Committee on Thursday afternoon. I already discussed this with most of Tom's directs and they are all on board. I will loop in Tom as well tomorrow (he is flying back tonight) and press on Linton and McKinney on Thursday. I will also try to tie this in with the proposed Option ARM product.

DK

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Press Release

For Immediate Release

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LEHMAN BROTHERS ANNOUNCES CLOSURE OF BNC MORTGAGE

NEW YORK, August 22, 2007 — Lehman Brothers announced today that market conditions have necessitated a substantial reduction in its resources and capacity in the subprime space. As a result, the Firm is closing its BNC Mortgage LLC subsidiary. The Firm continues to originate mortgages in the U.S. through its Aurora Loan Services LLC platform.

The closure affects approximately 1,200 employees in 23 U.S. locations. In connection with the closure, the Firm will record all related after-tax charges, including severance, real estate and technology costs, of approximately $25 million, and a 100% after-tax goodwill write-down of approximately $27 million.

Lehman Brothers (ticker symbol: LEH), an innovator in global finance, serves the financial needs of corporations, governments and municipalities, institutional clients, and high net worth individuals worldwide. Founded in 1850, Lehman Brothers maintains leadership positions in equity and fixed income sales, trading and research, investment banking, private investment management, asset management and private equity. The Firm is headquartered in New York, with regional headquarters in London and Tokyo and operates in a network of offices around the world. For further information about

Lehman Brothers' services, products and recruitment opportunities, visit our Web site at www.lehman.com.